

**Milwaukee County Employees' Retirement System (ERS)**

**Investment Committee Meeting**

**MINUTES**

**Members:** Sarah Peck                      Dean Roepke  
                  Linda Bedford                Jeffrey Mawicke  
                  John Maier

**1. Call to Order:**

Chairman Sarah Peck called the meeting to order at 2:30 pm, on 2-2-09, in Room 203-P, of the Milwaukee County Courthouse, 901 N. 9<sup>th</sup> St., Milwaukee, WI. 53233.

**2. Roll Call:**

<u>Members Present:</u>	<u>Members Excused:</u>	<u>Others Present</u>
Sarah Peck	Dean Roepke	Gerry Schroeder-ERS Manager
Linda Bedford		Mark Grady-Corporation Counsel
John Maier		David Arena-Benefits Director
Jeffrey Mawicke		Brett Christenson-Marquette Managing Director
		Ray Caprio-Marquette Assistant Vice President
		Jerry Heer, Audit Director
		Steve Cady, County Board Fiscal and Budget Analyst
		Jack Hansen, Clifton Group, Chief Investment Officer

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Three (3) handouts were provided to Investment Committee Members and those in attendance:

- Marquette Associates: Flash Report
- Clifton Group: PIOS
- Howard Marks: The Long View

**3. Topic: Discussion on the \$400 Million Bonds Allocation**

Marquette Associates opened up the session with an introduction to the concept of using a cash overlay manager. There are four premier companies doing such investments, Clifton Group, State Street, Bank of New York Mellon and Frank Russell.

The general concept of cash overlay is one in which a manager purchases futures contracts in amounts equivalent to un-invested fund cash to match the fund's asset allocation. This allows the fund to maintain asset allocation according to the funds' IPS and market exposure, designed to generate expected returns that more closely match the policy than allowing the funds to remain idle in a cash account. At any given time, there can typically be 2% of the overall fund sitting in cash due to cash accounts and trading inefficiencies in manager's accounts. There is no need for a margin account and no leveraging. It is 100% collateralized. The cost of a cash overlay manager is quite modest, about 10 basis points.

With respect to using cash overlay to handle POB proceeds, futures are purchased over a sequenced series of weekly or monthly phases for dollar cost averaging and to minimize risk from volatility. This allows these proceeds to be invested rather than sit in a cash account while the overall asset allocation is being reviewed and determined. Once the asset allocation is established, the futures can be sold and the money actively invested. Any rebalancing necessary can also be accomplished in the same manner. Using a cash overlay manager in this fashion avoids excessive transaction costs that would otherwise be incurred. The risk of using a cash overlay manager is the risk that comes from being fully invested; that is, that the market may drop. Marquette recommends using a cash-overlay manager to handle the POB proceeds and also to provide service on a permanent basis to handle overlay investment of cash that is un-invested at any given time in the fund. They are using and recommending cash overlay management to any client with at least \$500M in assets.

Marquette Associates has worked with the Clifton Group and invited Jack Hansen, Chief Investment Officer to educate the committee on the role of a cash overlay manager.

The Clifton Group presented the highlights from their handout. They are from the Twin Cities and have \$16.3 Billion in assets. Policy Implementation Overlay Services (PIOS) is a process of funds enhancement using investment tools. The investment goals are to maximize returns, control risk and lower costs. PIOS is non-leveraged and non-disruptive to managers. Futures are a part of a policy index strategy. A Futures contract is an agreement to buy or sell an underlying asset or index on a specific future date, at a pre-set cost.

The funds invested in a PIOS would be held at BNY in an interest bearing account, as segregated funds. Once the cash contribution from Pension Obligation Bonds (POB) is received, futures would be utilized to gain synthetic index exposure on POB balances. The advantages would be:

- On demand cash access before and after synthetic exposure gained.
- Ability to deploy an efficient and low cost approach to dollar cost averaging.
- Risk control and efficiency when manager portions are funded and invested.

As a general rule, Marquette suggested the Board move quickly to implement a cash-overlay manager. Marquette and the Committee discussed various possible policies for the staging of the investment of the POB proceeds. A 5% every two weeks would be a good approach. There would be a \$50,000 minimum fee clause. A \$150,000 annual fee, plus a percent of the assets, could be expected.

It was pointed out that the Pension Board is required to RFP this function, with possibly four firms submitting: Clifton Group, State Street, Russell and BNY Mellon. It would have to be a quick process, in order to set up in March and implement in April. Marquette was asked to draft an RFP for review by the Committee that could be sent to the firms providing this service and advertised. The plan is to get the RFP out later in the week with responses by Feb. 9. Marquette will review the responses, provide them to the Board and make a recommendation at the Board meeting. Marquette believes that this will be enough time for the firms to respond. The Cash Overlay Manager topic will be added to the next Board agenda for 2-11-09.

The committee asked Marquette to prepare some recommended timelines for implementing PIOS, with a justification based on experience and past practice. Chairman Peck requested some statistical review of various policies for staging the investment. Marquette also noted that the Investment Policy would have to be reviewed and amended to allow futures to be purchased.

#### **4. Topic: Marquette- Brokerage Fees**

Marquette directed the committee to the back page of the Flash Report (Appendix D), Policy and Guidelines for Brokerage Services. The rule for using best efforts to effect a 50% of total commissions recapture rate is not being followed. Only two (2) investment managers even come close to attaining this objective. Another area to review concerns using locally based brokerages. Marquette recommends sending out letters asking money managers to explain why they haven't being able to effect the 50% level or use of local brokerages. Subsequent to the receipt of these responses, they will be recommending changes to our Investment Policy.

#### **5. Topic: Marquette-Security Lending**

Marquette commented on the BNY Mellon Security Lending split being 70/30. Given the overall rate for custody services the rate may be reasonable. Marquette is investigating how the cash management is priced in order to verify this conclusion. Efforts will be made to negotiate better fees in the future.

Overall, the general prices for managers are good, in relation to industry standard.

- 6. Adjournment: The Investment Committee adjourned at 4:28 pm.

A handwritten signature in black ink, appearing to be 'G. Schroeder', written over a horizontal line.

Gerald J. Schroeder  
ERS Manager